

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

COLOMBIA

PUBLIC ADMINISTRATION REFORM PROGRAM

(CO-0266)

LOAN PROPOSAL

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ANNEXES

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BASIC SOCIOECONOMIC DATA

For basic socioeconomic data, including public debt information, please refer to the following address:

<http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata>

INFORMATION AVAILABLE IN THE RE3/SC3 TECHNICAL FILES

Preparation:

1. NPA Restructuring Component: Marianela Armijo. Final Report (March 2003).
2. E-procurement in the National Public Administration of Colombia: ROS/PRM Technical Note (May 2003).
3. Analysis of Government Litigation Activities 2000-2002. Carlos Amaya.
4. Analysis and Dimensioning of an Integrated System for Human Resource Management. Jorge Luis Rodríguez (July 2003).
5. CONPES document: Public Administration Reform (approved 20 October 2003).
6. CONPES document: Authorization for the government to obtain external financing from Banca Multilateral for the Public Administration Reform Program (version approved 10 November 2003).
7. Electronic Government Procurement (E-Gp) Readiness Survey (May 2003).
8. Report on the Strategic Plan for the Public Employment Component. Rafael Jiménez. (March 2003).
9. Policy on Information, Connectivity, and Technological Standards, Portal and Online Transactions: Review of Diagnostic Assessment and Proposals. Antonio Seco (February 2003).
10. Vocational and Technical Rehabilitation Program. Beatriz Guinovart. Final Report (February 2003).
11. Redesign and implementation of a management system for government fixed assets. Carlos Amaya (June 2003).
12. Computerized systems for personnel management, payment of pension benefits, and wage structure. Nelson Marconi. (February 2003).

Execution:

1. Annual work plan for each subcomponent (for year 1).
2. Operating Regulations for the program.
3. PPMR at entry.

ABBREVIATIONS

AWP	Annual work plan
CGN	Contaduría General de la Nación [National Accounting Office]
CONPES	National Economic and Social Policy Council
DAFP	Department of Public Service Administration
DDJN	Dirección de Defensa Judicial de la Nación [Office of State Legal Defense]
DEPP	Dirección de Evaluación de Políticas Públicas [Public Policy Evaluation Office] (DNP)
DNP	National Planning Department
EA	executing agency
IMF	International Monetary Fund
MHyCP	Ministry of Finance and Public Credit
MIJ	Ministry of the Interior and Justice
NPA	National Public Administration
PA	Program administrator
PPS	Social Safety Net Program
PRAP	Public Administration Renewal Program
PROGA	Asset Management Program
SC	Steering Committee for the program
SIGA	Asset Management Information System
SIIF	Integrated Financial Information System
SUIP	Unified Personnel Information System (DAFP)
TS	Technical Secretariat



COLOMBIA

IDB LOANS

APPROVED AS OF APRIL 30, 2004

	US\$Thousand	Percent
TOTAL APPROVED	10,890,439	
DISBURSED	10,227,794	93.91 %
UNDISBURSED BALANCE	662,645	6.08 %
CANCELATIONS	1,050,999	9.65 %
PRINCIPAL COLLECTED	5,316,191	48.81 %
APPROVED BY FUND		
ORDINARY CAPITAL	10,070,088	92.46 %
FUND FOR SPECIAL OPERATIONS	758,352	6.96 %
OTHER FUNDS	62,000	0.56 %
OUTSTANDING DEBT BALANCE	4,911,603	
ORDINARY CAPITAL	4,733,057	96.36 %
FUND FOR SPECIAL OPERATIONS	178,277	3.62 %
OTHER FUNDS	269	0.00 %
APPROVED BY SECTOR		
AGRICULTURE AND FISHERY	545,821	5.01 %
INDUSTRY, TOURISM, SCIENCE AND TECHNOLOGY	528,240	4.85 %
ENERGY	2,838,953	26.06 %
TRANSPORTATION AND COMMUNICATIONS	735,327	6.75 %
EDUCATION	87,149	0.80 %
HEALTH AND SANITATION	830,836	7.62 %
ENVIRONMENT	130,025	1.19 %
URBAN DEVELOPMENT	567,890	5.21 %
SOCIAL INVESTMENT AND MICROENTERPRISE	2,694,164	24.73 %
REFORM AND PUBLIC SECTOR MODERNIZATION	1,897,212	17.42 %
EXPORT FINANCING	0	0.00 %
PREINVESTMENT AND OTHER	34,822	0.31 %

* Net of cancellations with monetary adjustments and export financing loan collections.



COLOMBIA

STATUS OF LOANS IN EXECUTION

AS OF APRIL 30, 2004

(Amount in US\$ thousands)

APPROVAL PERIOD	NUMBER OF LOANS	AMOUNT APPROVED*	AMOUNT DISBURSED	% DISBURSED
<u>REGULAR PROGRAM</u>				
Before 1998	9	293,012	249,523	85.16 %
1998 - 1999	5	98,166	46,040	46.90 %
2000 - 2001	3	303,000	156,122	51.53 %
2002 - 2003	6	611,569	266,989	43.66 %
2004	1	72,000	0	0.00 %
TOTAL	24	\$1,377,747	\$718,674	52.16 %

* Net of cancellations. Excludes export financing loans.



Inter-American Development Bank
Regional Operations Support Office
Operational Information Unit



Colombia

Tentative Lending Program

2004

Project Number	Project Name	IDB US\$ Millions	Status
CO0139	Program for the Reorganiz., Redesign and Moderniz. of Health Services Networks	72.0	APPROVED
CO0262	National Environmental System Support Program	20.0	
CO0263	Support of Privatizations and Concessions in Infrastructure- Second Stage	5.0	
CO0266	Public Service Reform Program	10.3	
CO0270	Public Services Sector Reform Program	400.0	
CO1003	National Rural Housing Program	30.0	
CO1001	Cali Integrated Transit System	150.0	
CO1002	Program to Support Vaccinations	70.0	
CO1004	Rehabilitation and Maintenance Highways (INVIAS)	50.0	
Total - A : 9 Projects		807.3	
TOTAL 2004 : 9 Projects		807.3	

2005

Project Number	Project Name	IDB US\$ Millions	Status
CO0267	Environmental Sanitation of Bogota - Phase I	50.0	
CO1005	Porce III Hydroelectric Power Plant	200.0	
CO1006	Sanitation Manizales and Villamaria	13.5	
Total - A : 3 Projects		263.5	
TOTAL - 2005 : 3 Projects		263.5	
Total Private Sector 2004 - 2005		0.0	
Total Regular Program 2004 - 2005		1,070.8	

* Private Sector Project

PUBLIC ADMINISTRATION REFORM PROGRAM

(CO-0266)

EXECUTIVE SUMMARY

Borrower:	Republic of Colombia.	
Executing agency:	The National Planning Department (DNP), the Ministry of the Interior and Justice (MIJ), the Department of Public Service Administration (DAFP), and the Ministry of Communications (MICOM) through the Communications Fund of the Connectivity Agenda, under the coordination of the Steering Committee and the supervision of the Technical Secretariat.	
Amount and source:	IDB (OC):	US\$10,346,000
	Local:	<u>US\$ 8,465,000</u>
	Total:	US\$18,811,000
Financial terms and conditions:	Amortization period:	20 years
	Grace period:	4 years
	Disbursement period:	4 years ¹
	Currency:	U.S. dollars from the Single Currency Facility
	<p>The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendation. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1% of the loan amount.²</p>	
	Interest rate:	adjustable
	Credit fee:	0.25%
	Inspection and supervision:	0.0%
Objectives:	The general objective of the program is to enhance the productivity of the National Public Administration (NPA) by improving the	

¹ Consistent with Bank policies, the total amount of financing may not be disbursed in less than three years, running from the date of the loan contract.

² With regard to the inspection and supervision fee, in no case will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount, divided by the number of six-month periods included in the original disbursement period.

efficiency, effectiveness, and transparency of government entities and systems.

The specific objectives of the program are to achieve: (a) greater efficiency in the use of available resources through better organizational design; (b) better management of public employment; (c) greater integration, quality and efficiency of horizontal systems for legal and asset management; and (d) improvements in the generation, integration and transparency of government information. The program is expected to indirectly help stabilize the NPA's fiscal situation and thereby free up resources for development.

Description:

The accelerated growth of central government spending at a time when resources are being decentralized, together with the slow increase in the provision of services, reflects the widespread poor performance of the NPA. The major causes of this problem fall under four broad headings: (a) inadequate organizational structures; (b) lack of management control over the public employment system; (c) weak and poorly integrated horizontal management functions; and (d) weak and poorly integrated national information systems. To support the government's efforts to address these problems, the program is divided into four components: (a) restructuring the NPA; (b) reforming the management of public employment; (c) strengthening horizontal management systems; and (d) integrated information for governance.

Restructuring the NPA will support the reorganization of central government ministries and agencies, including their internal reorganization and a liquidation strategy, and a workforce adjustment plan to provide counseling, retraining, and reemployment assistance to laid-off public servants.

Reforming the management of public employment will strengthen personnel management, by encouraging greater observance of the merit principle and introducing the flexibility that will allow for effective and efficient management of human resources, including a new public employment information and management system.

Strengthening horizontal management systems will improve the integration, quality, efficiency, and effectiveness of certain horizontal management functions within the NPA, specifically its legal management efforts and its management of fixed assets.

Integrating information for governance will enhance the reliability, timeliness, standardization, and transparency of the information exchanged by agencies and provided to citizens in relation to filings, services, and government contracting through the promotion of

e-government (“services portal”) and the design and implementation of a government procurement and contracting system (“e-procurement”).

**The Bank’s
country and
sector strategy:**

The Bank’s country strategy with Colombia defines three areas of support: (a) laying the groundwork to revive and boost the economy; (b) promoting social development and protection for the most vulnerable groups; and (c) improving the country’s governance and supporting modernization of the State. The proposed program will support the strategy for modernization of the State as it addresses the constraints represented by the fiscal deficit through the savings to be generated by reform.

In its strategy for modernization of the State, the Bank has identified four broad areas of activity: (a) democratic system; (b) the rule of law; (c) State, market and society; and (d) governance. The program falls into the area of governance, involving activities that will: (a) develop and strengthen civil service systems, applying the criteria of merit and flexibility; (b) enhance the efficiency and transparency of expenditure management; (c) improve the capacity to coordinate strategies and public policies, in particular those for combating poverty; (d) modernize the management of public services; and (e) harness the potential of information technologies for governance.

**Coordination
with other
official
development
institutions:**

The effort to help Colombia with its NPA reform strategy through technical assistance, advisory services, and financing, as well as through reforms, is being closely coordinated with multilateral agencies. This operation focuses on restructuring the NPA, reforming the management of public employment, strengthening horizontal management systems (such as legal and asset management), and integrating information for governance; whereas the World Bank, through a programmatic policy loan for US\$900 million, is addressing the areas of budgetary management and tax reform. There will be greater complementarity between the two agencies for certain specific management systems, since the World Bank has set targets for legal management, the management of fixed assets, and government procurement in its programmatic loan, which the IDB will support with specific investments (see paragraph 1.50).

**Environmental
and social
review:**

Given the nature of the activities to be financed through this program, no direct environmental or social impacts are foreseen. Nevertheless, the program will pay particular attention to the following issues: (a) actions to cushion the impact of the government’s workforce rationalization plan by providing training and creating incentives for reemployment; and (b) protecting environmental management from negative fallout during the restructuring of ministries and agencies.

Benefits: The program will produce significant direct benefits, both by enhancing the efficiency, effectiveness, and transparency of government and by improving the country's fiscal situation.

In terms of the NPA's efficiency and effectiveness, the organizational restructuring will reduce institutional dispersion by cutting the total number of entities, thereby improving the coordination of policy formulation and service delivery. Better organizational design is expected to optimize the use of available resources. Public employment management is expected to improve through the use of modern, integrated technological tools. Finally, greater transparency in government by delivering more and better information to the public and to other institutions will help to strengthen the sense of citizenship and increase competitiveness.

From the fiscal viewpoint, the main benefit of the operation will flow from the modernization of NPA management in a fiscally responsible manner with a gradual reduction in the share of current government expenditure within GDP. This will produce an increase in average productivity and make room for greater public investment. The savings produced by these reforms are expected to rise from 0.32% of GDP in 2004 to 0.72% in 2006.

Risks: The program presents three risks: (a) lack of ongoing political support, which could slow, postpone, or alter the planned reforms; (b) lack of proper coordination in program execution, because of the many issues and agencies involved in the reforms; and (c) the lack of fiscal room for implementing the program.

To encourage ongoing political support, the government has confirmed its commitment to reform in the National Development Plan (PND 2002-2006), as well as in the agreements signed with the World Bank and the International Monetary Fund (IMF), which give due priority to these issues. Another indication is the approval of several CONPES documents at the 20 October 2003 meeting (public administration reform, government contracting, legal defense, and asset management). The legislative branch has also shown its support by passing the Special Powers Act in late 2002 and approving, at an initial stage, the concept paper on this operation in the Interparliamentary Commission. At the same time, monitoring of the program will serve to identify promptly any sign of deviation in this process.

Three elements of the program's design will minimize execution problems: (a) establishment of a Steering Committee in which all the institutions involved will participate and coordinate with one another;

(b) clearly defined responsibilities for each of the participating entities; and (c) review by the Steering Committee and the Bank of the main execution instrument: the annual work plans (AWPs) submitted by each entity.

To mitigate the risk of a lack of fiscal room, the 2004 budget includes the funds necessary to begin restructuring the NPA. For subsequent years, the availability of funding will depend, as it does with other investment programs, on the fiscal situation. However, considering the significant savings that the reform will generate, even under tight fiscal conditions, the program should remain a top priority for the government.

**Special
contractual
clauses:**

Prior to the first disbursement under the program, the borrower must provide evidence that:

- a. The program Steering Committee and Technical Secretariat have been formally established (see paragraphs 3.2 and 3.4).
- b. The United Nations Development Programme (UNDP) has been contracted to act as program administrator (see paragraph 3.8).
- c. The executing agencies have entered into an interagency agreement that establishes, inter alia, coordination and execution mechanisms for program activities (see paragraph 3.12).
- d. The Operating Regulations for the program are in force, in accordance with terms and conditions previously agreed with the Bank (see paragraph 3.15).

Conditions precedent to the first disbursement under specific subcomponents:

Asset management system subcomponent: A presidential decree must be issued, establishing the Intersector Commission for Asset Management. Such condition relates exclusively to financing of the technical group to support the commission.

Recognition of expenditures and retroactive financing

Recognition of expenditures has been requested against the loan proceeds for up to US\$400,000 equivalent in costs incurred for program activities by the borrower, through its executing agencies, on or after 1 January 2003; and against the local counterpart for up to US\$900,000 equivalent in costs incurred by the borrower, through its executing agencies, on or after 1 January 2003 for activities under the various program components. In both instances, the recognition will

be for costs incurred no more than 18 months prior to Bank approval of the loan.

Poverty-targeting and social sector classification:

This operation does not qualify as a social equity enhancing program as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704), nor does it qualify as a poverty-targeted investment (PTI).

Exceptions to Bank policy:

See Procurement, below.

Procurement:

The procurement of goods and related services and the contracting of consulting services will be conducted in accordance with Bank policies and procedures. For the procurement of goods and related services, international competitive bidding will be used when the cost is US\$350,000 equivalent or more. For the contracting of consulting services, open international calls for proposals will be issued when the estimated cost is greater than US\$200,000 equivalent. Procurement and contracting in lesser amounts than those indicated will be governed by national legislation, provided that the procedures are consistent with Bank policies. The program does not call for the construction of works. Contracting of UNDP without competition to act as program administrator is recommended on the rationale set forth in paragraph 3.9 and the footnote thereto, which is consistent with the guidelines established in Procurement Manual Chapter GS-403.

I. FRAME OF REFERENCE

A. Macroeconomic and institutional setting

- 1.1 In the past several years Colombia has faced one of its most difficult crises of recent times. In 1999 and 2000 the country experienced negative growth rates, a crisis with borrowers in the mortgage lending system and another in the financial system, sharp fiscal imbalances for the national and regional governments, and the emergence of many contingent liabilities. The persistence of some of these imbalances, as well as political factors and external events, affected the economy severely, limiting growth in 2001 to 1.4%. On the political front, the stalled negotiations with armed groups and the political standoff between the executive and legislative branches have held back the government's reform agenda. Internationally, the slowdown of developed economies and the problems facing emerging economies have restricted demand and investment.
- 1.2 The expectations of economic agents shifted with the inauguration of the new government in August 2002, which redefined the strategy for dealing with the armed conflict and promoted a structural reform plan for controlling the fiscal deficit. Recovery could be seen in the GDP growth rate, which reached 1.61% in 2002, up slightly from 2001, and 3.64% in 2003.
- 1.3 The fiscal situation facing Colombia is the result of expenditure and revenue trends that began in the early 1990s. Those trends saw rising "inflexible" or non-discretionary expenditures financed by temporary tax revenues that left a shortfall as of 1995.¹ Thus, the fiscal deficit rose from 0.3% of GDP in 1995 to 5.5% in 1999, and stood at 3.8% in 2002.
- 1.4 The government has acted on three fronts to address the problem of the fiscal deficit and its financing. First, the SDR 1.548 billion standby agreement signed in 2003 with the International Monetary Fund (IMF) establishes a macroeconomic policy framework for the following two years and includes quarterly targets for structural changes and limits on public spending. Second, a series of reforms (notably in taxation, pensions, labor relations, fiscal accountability and transparency, and renewal of the national public administration (NPA)) has been undertaken with support from multilateral institutions, to increase fiscal revenues, reduce the major "inflexible" items in the budget, and promote growth and employment. Third, multilateral institutions are being asked to provide the necessary financing in coming years.
- 1.5 It is expected that with these reforms the public sector's consolidated fiscal deficit can be held at 2.5% of GDP in 2003 and 2004. According to simulations, the

¹ Expenditure increases have reflected a significant rise in education and health transfers to subnational governments, rising pension payments that were explicitly recognized in the budget (Law 100), and higher operating and defense expenditures by the central government.

medium-term effect of NPA reforms will produce annual savings averaging about 0.6% of GDP.²

- 1.6 The government is also formulating strategies to reverse declining confidence in the State and worsening government efficiency and effectiveness. Symptomatic of these problems are, respectively, the high index of perceived corruption³ and rising public spending⁴ without any proportionate increase in the provision of services or in social well-being, despite significant progress in such areas as health and education.
- 1.7 Accordingly, the government has proposed a thorough reform of the NPA, designed to produce savings for combating the fiscal crisis and to improve the performance and credibility of public institutions, covering entities and agencies of the executive branch and their principal management systems. This reform of the NPA, which the proposed program will support, will be accompanied by other reforms mentioned above.

B. The National Public Administration (NPA)

- 1.8 The NPA in Colombia consists of the executive branch of the central government, which in early 2003 included 16 ministries, 6 administrative departments, 11 superintendencies, 7 administrative units, 83 “attached” (*adscritas*) entities, 79 “associated” (*vinculadas*) entities, and 55 autonomous agencies, in addition to 45 other entities of varying kinds: a total of 302 institutions. While some entities are well structured and administered, in general these organizations constitute a very large NPA that is excessively bureaucratic, difficult to manage rationally, and little focused on efficiency, effectiveness, transparency, and results.
- 1.9 During the 1990s the country made a major effort at decentralization, transferring a considerable portion of current national revenues to subnational levels of government.⁵ This effort, however, was not accompanied by any proportionate adjustment in the structure and size of the central government: between 1990 and 2001, central government expenditure rose from 9.4% of GDP to 19.8% (or from

² These projections are consistent with a growth rate of 2%, 3.3%, 3.7% and 3.9% successively over the period 2003-2006 (CONFIS, MHYCP model). These may be considered conservative estimates, particularly for 2003 (3.64%).

³ Transparency International ranks Colombia among the riskiest countries, with 94% of business people, public officials, and citizens indicating corruption as one of the four most severe problems in the country.

⁴ Public spending doubled in 10 years, rising from 16.8% of GDP in 1990 to 33.5% in 2001, excluding debt service.

⁵ Although the NPA shares many of its management problems with the subnational governments, the latter have been less severely affected in fiscal terms, since the decentralized sector showed a surplus of some 2% of GDP in 2000 and 2001. The Bank has other projects at the regional level (Highway Development and Institutional Strengthening for Cundinamarca, loan 1443/OC-CO): the task of strengthening regional government institutions is in fact a medium- and long-term priority, and was not included in this program.

7% to 15.8%, discounting transfers to other levels of government). The government's present intention to focus the NPA on policymaking, regulation and oversight, decentralizing public service delivery to the regional and local levels wherever possible, reinforces the need for adjustment at the center.

- 1.10 The accelerated growth of central government spending at a time when resources are being decentralized, together with the slow increase in the provision of services, reflects the widespread poor performance of the NPA. The major causes of this problem fall under four broad headings: a) inadequate organizational structures; b) lack of management control over the public employment system; c) weak and poorly integrated horizontal management functions; and d) weak and poorly integrated national information systems.
- 1.11 The current **organizational structures of the NPA** inhibit efficient government action through excessive fragmentation and institutional proliferation within the executive branch, which at the beginning of 2003 embraced 302 entities, compared to only 189 in 1990, entailing the diversion of ever more revenues to administrative support at the expense of those allocated directly to core service delivery.
- 1.12 Not only are these structures dispersed and poorly managed,⁶ but they also betray redundancies and overlapping. Many are engaged in areas of activity for which there is no real demand. Working procedures are inefficient and not organized by product and service. Some are engaged in activities that could be provided more efficiently by the market, and in some cases the lines between policy, regulatory, and execution functions are blurred.
- 1.13 When it comes to **public employment**, there has been a clear rising trend in its relative cost since 1990.⁷ While in absolute terms Colombia cannot be said to have an excessively large public sector as measured by employment, the trend is of concern, especially within the national executive branch, where the number of civil servants rose from 100,000 in 1993 to 155,000 in 2002 (excluding the police, military, teachers, and vacant positions), at a time of sharp devolution of responsibilities towards regional governments.
- 1.14 Moreover, the public employment management system in Colombia is highly dysfunctional: not only is it inefficient, but there is little respect for the merit principle, structural consistency, or functional capacity. Human resource management procedures are time-consuming and complex, and there are too many levels and types of positions, entailing high bureaucratic costs.

⁶ The integrity index prepared by Transparency Colombia, measuring three factors (transparency, control and sanctions, and institutional efficiency) showed poor results in 2002 for 70% of the 88 public institutions surveyed.

⁷ The cost of the public payroll as a proportion of GDP averaged 7% over the 1992-1997 period, and it has exceeded 10% since 1998. Payroll as a percentage of total public spending rose from 16% to 29% over the same period.

- 1.15 The Department of Public Service Administration (DAFP, www.dafp.gov.co), the central agency for personnel management, has not traditionally had an entirely clearly defined role. Its capacity to plan, regulate and generate useful information for managing public employment is weak. With Decree 189 of 26 January 2004 the DAFP corrected some flaws in its structure and functions. This was a start, but did not go far enough to meet the Colombian State's public employment challenges in terms of technical and information components.
- 1.16 For human resource management, each institution has its own payroll information system, making it difficult to compile a unified database for comparing and analyzing information on individual public servants or to perform audits or automated checks. In the absence of standardization and integration, there are two ways of aggregating information: the DAFP's unified personnel information system (SUIP) and the integrated financial reporting system of the Ministry of Finance and Public Credit (MHyCP), which are not interconnected or loaded directly with information from the various entities. This leads to duplication of work in information processing and higher transaction costs, and may affect the quality and timeliness of reporting.
- 1.17 The various **horizontal management functions** affecting rules, policies, and administrative institutions of general scope, are not integrated or efficiently managed. This is particularly true of the NPA's legal management and its system for management of fixed assets.⁸
- 1.18 The **NPA's legal management** faces serious difficulties of coordination and technical capacity, which have led to an alarming increase in the number of successful lawsuits and appeals against the public sector through the country's jurisdictional bodies.⁹ This situation has developed within a context of broad interpretation of constitutional protections in judicial decisions, to which the government has yet to find a consistent and adequate response. Among the problems facing the system are inadequate incentives, work overload, weak technical and legal capacity (in terms of both preventing and defending against litigation), inadequate mechanisms and instruments of coordination and monitoring, and an inadequate legal framework.

⁸ The concept of horizontal management used in this paper refers to administrative functions in all ministries and entities, where efficiency could be increased through operational decentralization together with centralized policy formulation and evaluation, a process known as "decentralization with integration." According to this principle, unified databases for each horizontal function can be used for evaluation at the central level, led by the central agencies, which can compare administrative efficiency among different sectors and entities, and use this information to formulate management policies for each specific horizontal system.

⁹ The Office of the Comptroller General estimates that, if the court decisions against the State continue to rise at the current rate, liabilities on this score could represent 2% of GDP by 2006, further aggravating the country's fiscal situation.

- 1.19 The State's legal defense against lawsuits has been managed inefficiently, and insufficient attention has been paid to the alternatives open to the State as an active party to litigation. Moreover, officials and institutions representing the NPA's legal interests do not have up-to-date information on litigation activity in the public sector, nor any unified criteria for handling litigation, clear policies regarding alternative dispute resolution, or guidelines for managing contracts and tort liability.
- 1.20 The lack of financial and specialized logistical resources has prevented the introduction and strengthening of measures to avoid incurring State liability through unlawful acts (*daños antijurídicos estatales*, hereafter "State liability"). The failure to control and monitor the performance of government entities has also impeded corrective measures to bolster the State's legal management. Although there have been efforts to combat these shortcomings, what is needed is an integrated system, operating under an effective coordination body, that sets policies to guide the legal representatives of government agencies, provides useful criteria and expertise, and monitor this work.
- 1.21 When it comes to **asset management**, public institutions have received many properties that are unrelated to their core function. Consequently, as assets accumulate,¹⁰ they are poorly allocated, underused,¹¹ and tend to become a net drain on expenditure, because of inadequate operation, and a source of legal disputes over improper appropriation. The shortcomings in asset management reflect a lack of: (a) a management culture; (b) an integrated information system; (c) a regulatory structure to facilitate the sale, transfer, or donation of assets; (d) incentives for institutions to divest themselves of unproductive assets or make better use of them; and (e) a central agency to control, coordinate, and formulate policies for effectively managing the nation's assets.
- 1.22 The country in fact lacks a businesslike asset management culture based on the profit motive and the efficient use of property. Generally speaking, it appears that institutions may be increasing their property holdings, partly as a way of extracting higher maintenance budgets,¹² and also as a source of budget security for hiring more staff.
- 1.23 Nor is there a system for providing reliable, complete, and timely information for asset management purposes. Preliminary comparisons of information from institutions and from the National Accounting Office (CGN) reveal a chaotic situation explained in part by the lack of control standards: (a) the correspondence between the number of properties in the institution's records and in those of the CGN is no more than 40% in most cases; (b) CGN registry forms contain sufficient

¹⁰ According to the National Accounting Office (CGN), there are some 25,000 properties belonging to 187 of the 302 existing national entities.

¹¹ Expenditures on rent amount to more than US\$70 million a year, while many government-owned buildings stand unoccupied and dilapidated.

¹² Maintenance expenditures as a percent of total central government spending doubled from 1992 to 2002.

information fields to perform a validation, but many of those fields are blank; and (c) there is not always correspondence between the legal status of the property as reported to the CGN and its actual status.

- 1.24 The legal framework for the disposal, transfer, and management of State assets consists of a patchwork of provisions in the Constitution, Civil Code, State authorities acts, regulations, decrees, policies, and procedures. In addition to being scattered, this framework is confusing, fails to recognize basic market principles, and bases the pricing of properties for sale on an ambiguous set of valuation methods (book value, inflation adjustment, appraisals by official entities, etc.). The system clearly fails to provide the legal tools needed for discretionary action that would enhance managerial efficiency and effectiveness.
- 1.25 Despite its complexity, the legislation has no provision requiring accountability for the operation, conservation, and supervision of properties held in trust. In turn, there are no incentives for disposing of unproductive properties. The lack of protection for public servants in the performance of their duties inhibits them from fully exercising their authority, if it would entail any departure from a literal, lawyerly interpretation of the law. In other words, the system provides perverse incentives to maintain the status quo as it relates to legal risks.
- 1.26 Nor is there any comprehensive, long-term vision to guide policies toward greater efficiency and effectiveness in the acquisition, disposal, and allocation of fixed assets. The lack of a central unit to develop such management policies and alternatives within the administration and with the market has led to a scattering of responsibilities, a total absence of interagency coordination, significant losses, and institutional negligence in providing reliable information to the CGN for preparing realistic inventories.
- 1.27 When it comes to **national information systems**, the NPA lacks adequate information for formulating and evaluating public policies. The reason lies in the excessive dispersal of information generation and the lack of a comprehensive policy that would include a legal framework and the necessary management tools. The lack of clarity as to who should determine information policy and its strategic significance has sparked sporadic efforts by institutions to improve the amount and availability of information. This has led to duplication of data as well as gaps and shortcomings in the quality and content of information available to the public and to the government.
- 1.28 With respect to the implementation of information technology is coordinated by the Connectivity Agenda (<http://www.agenda.gov.co/>) of the Ministry of Communications, which is responsible for integrating and standardizing efforts to appropriate, utilize, and spread the use of information technologies throughout the public sector (e-government). The country already provides information, procedures, contracts, and various services online. As of end-2002, 500 websites

averaging 480,000 hits a month had registered with the Colombian government portal (<http://www.gobiernoenlinea.gov.co/>).

- 1.29 Yet if the NPA's information structure is to be put to proper use, these activities will have to be integrated as a convergence of physical structure (hardware and connectivity), management information requirements, and information technology content and its application to public services. Today, each system creates its own information network with no minimum intercompatibility standards, leading to a proliferation of overlapping networks lacking adequate control over security, efficiency, or overall costs.
- 1.30 One of the most important governance-related services, and the one with the greatest financial impact when available online, is the government procurement system, which accounts for about 10% of GDP according to data from the vice president's office. The country has made significant progress toward simplifying and improving its procurement management, but this progress has been uncoordinated because of such factors as: (a) the disparity in the procurement models used by different agencies; (b) the great number of waivers (about 35) of the general procurement law, which means that there is no single interpretation of that law; (c) scattered and disconnected existing e-procurement initiatives; and (d) the lack of an institutional structure that could move these initiatives forward.

C. The government's NPA reform strategy

- 1.31 The current administration has adopted a series of initiatives for implementing a comprehensive governance reform program, known as the Public Administration Renewal Program: Towards a Community-based State (PRAP). The program is coordinated by the National Planning Department (DNP, <http://www.dnp.gov.co/>), in close collaboration with DAFP and MHyCP.
- 1.32 Measures for **restructuring and rationalizing the NPA** were defined in Presidential Directive 10 (August 2002), followed by DNP circular 530, establishing the tools and methodologies to be applied for immediate, short-term action. Nineteen sector working groups were set up as a result, and they prepared the preliminary design for internal restructuring of the ministries and entities of the national government.
- 1.33 The vertical reforms are aimed at institutional redesign and are being pursued with Bank support in three successive stages: (a) development of methodologies and the elimination of vacant positions, which was completed in December 2002; (b) elimination, restructuring, or merger of agencies ("macro" external

- restructuring) under a special powers act approved in December 2002;¹³ and (c) progressive deepening of reforms for the performance of new tasks (internal restructuring and review of working procedures).
- 1.34 The restructuring process will mean substantial productivity gains in service delivery and will also lead to the elimination of many positions, mostly through not fully replacing staff who retire (estimated at a savings of 30,000 positions over the next four years) and, to a lesser extent, through layoffs (estimated at a further 10,000). The government program also calls for retraining and reemployment mechanisms for people affected by these cuts.
- 1.35 To prevent laid-off employees from being rehired, the Special Powers Act (*Ley de Facultades*, law 790 of 2002) provides that ministries and institutions will be staffed at the levels necessary for their functioning, and that in no case may they sign permanent service contracts to perform functions that belong to existing positions. Where personal service contracts are necessary, they must be reported to Congress on a semiannual basis. The Special Powers Act also provides for the mandatory elimination of positions vacated through retirement, a matter that is already regulated by instruction circular 474 of the DNP, MHyCP, and DAFP.
- 1.36 In terms of **public employment**, the government has launched a constitutional and legislative reform process to simplify and rationalize public employment management, to improve its efficiency, and to strengthen the merit principle. At the same time, the government is making changes in the regulatory framework and the instruments for managing public employment that fall directly within its purview, including job descriptions, salary schedules, and the design and implementation of performance evaluation tools and new public management models in an effort to strengthen the DAFP as the central human resources agency. In addition, a study is underway to design a new human resource information system that will address current gaps and inconsistencies in personnel data, integrate the information generated by the MHyCP's Integrated Financial Information System (SIIF), and generate the strategic personnel information that the government needs for decision-making.
- 1.37 With respect to **horizontal management functions**, the government is taking a number of specific steps. Under the NPA's legal management strategy, new powers were given in November 2002 to the Office of State Legal Defense (DDJN) of the Ministry of the Interior and Justice, including those of: (a) designing policies for legal defense of the national government; (b) proposing measures to avoid incurring State liability; (c) analyzing the reasons for increased litigiousness and proposing

¹³ The Special Powers Act (*Ley de Facultades*) granted special restructuring powers to the executive for a period of six months until June 2003. The government has accordingly implemented several external macro restructurings (mergers of agencies and entities). With the expiry of this special act, the government is pursuing internal restructuring of NPA entities through a continuous process of rationalization and institutional strengthening that will be supported by this program.

strategies to resolve them; (d) designing mechanisms to control and monitor legal actions being handled by other agencies; and (e) administering an information system on legal proceedings involving public agencies. The DDJN also considers it important to design management indicators for the system and train public officials in matters related to defending NPA interests in court.

- 1.38 In performance of these functions, the Ministry of the Interior and Justice has prepared an initial diagnostic assessment that includes the major causes of lawsuits against the State, the agencies most frequently sued, and the cases that have imposed the greatest burdens on the public sector. At the same time, the ministry prepared a work plan of additional studies and activities, culminating in CONPES document 3250, which contains lines of action for strengthening the nation's legal defense and for placing a value on contingent liabilities. These efforts are expected to serve as a point of departure for institutional measures and legal reforms, as necessary, to bring about a substantial improvement in the nation's legal strategy.
- 1.39 In terms of **asset management**, the government has agreed to a series of conditionalities with the World Bank relating to legislative changes and taking of inventory, and is taking a number of steps in this area. The National Economic and Social Policy Council (CONPES) has produced and approved a report with Bank support, under the responsibility of the DNP, establishing "policy guidelines for the efficient management of public assets." An inventory of real estate and rules governing the direct or indirect management of real estate assets are being prepared. A working group has been established, involving the DNP, the CGN, MHyCP, IGAC, an external advisory committee, and others, to coordinate the process; and consultants have been hired to prepare a Fixed Asset Management Program (PROGA), to lay the conceptual groundwork for the Asset Management Information System (SIGA) and to structure an inventories work plan.
- 1.40 With respect to **national information systems**, the country has been pursuing "online government" in three phases: (a) information, (b) formalities and services, and (c) online contracting: at the beginning of 2003 the steps, procedures and documents relating to 750 forms and 500 services were available online at the Colombian government's portal.
- 1.41 As well, the Ministry of Communications Connectivity Agenda has identified an architecture for online government work that will make the NPA's information systems more interoperable, including development of a design and management model for system convergence, a priority architecture for integrating systems that currently use their own communication networks/channels, developing information security systems, and implementing specific applications. This process will include the design and implementation of hardware, software, security, connectivity, and intranet communication infrastructure; digital systems for exchanging and storing official information; and sector modules for collaboration, exchange, preservation, and publication of information.

- 1.42 With specific reference to online contracting, in 2002 the government created a Strategic Committee for e-Procurement, involving all the relevant stakeholders, a move that has strengthened interagency dialogue and generated a single, strategic vision for the sector, taking account of progress already achieved, such as the IDB-funded Information System for State Procurement Supervision (SICE), the Integrated Financial Information System (SIIF), the Single Procurement Portal (PUC) coordinated by the vice president's office, and the Public Financial Management Project II at the DNP, financed by the World Bank. With IDB support, and as part of the process of designing this operation, the country prepared a diagnosis that served as the basis for an action plan integrating the legal framework, organizational issues, and the sector's institutional capacity. The National Procurement Committee (CNC) was subsequently established, as described in CONPES document 3249 of 20 October 2003, "Government procurement policy for a management State." The CNC is presented as a follow-on to the Strategic Committee.
- 1.43 Thus, the government has moved forward on the following issues: (a) a bill to amend Law 80 was introduced in Congress in 2003, and is expected to pass in 2004; and (b) the Office of the Vice President, DNP, Connectivity Agenda, and MHyCP are working together on the action plan and preliminary model for the integrated e-procurement system.
- 1.44 Finally, a strategy and diagnostic assessment of all government measures, and the general guidelines of the NPA reform program as a whole, its scope, and its evaluation mechanisms are included in the various CONPES documents approved at the 20 October 2003 meeting (public administration reform, procurement, legal defense and asset management, www.dnp.gov.co).

D. Strategy and experience of the Bank and other donors

- 1.45 The Bank's country strategy with Colombia defines three areas of support: (a) laying the groundwork to revive and boost the economy; (b) promoting social development and protection for the most vulnerable groups; and (c) improving the country's governance and supporting modernization of the State. At the same time, the Bank will help the country to address fiscal problems and the escalation of the armed conflict, issues that, in the context of the country strategy, are major constraints on effective Bank action, because they affect the type of interventions and the scale of its operating program. The proposed program will support the strategy for modernization of the State as it addresses the constraints represented by the fiscal deficit through the savings to be generated by reform.
- 1.46 In its strategy for modernization of the State, the Bank has identified four broad areas of activity: (a) democratic system; (b) the rule of law; (c) State, market, and society; and (b) governance. This project falls within the area of governance, involving activities that will: (a) develop and strengthen civil service systems, applying the criteria of merit and flexibility; (b) enhance the efficiency and

transparency of expenditure management; (c) improve the capacity to coordinate strategies and public policies, in particular those for combating poverty; (d) modernize the management of public services; and (e) harness the potential of information technologies for governance.

- 1.47 The Bank has solid experience in the sector, having approved loans and technical cooperation funding for public administration reform and related issues in various countries of the region, as well as other operations in Colombia, which have been taken into account in the design of this operation.¹⁴ Given its broad experience in the sector, the Bank has been working very closely with the government to design a strategy for modernization of the State, and has served as a catalyst in building consensus on a conceptual model for the reform, sharing with the DNP the lessons learned from previous operations, and providing general policy and strategic guidance.
- 1.48 Among the lessons learned that were considered in this operation are the following: (a) ensure that the operation is appropriated by the country's political authorities at the highest level, and that it is backed by the necessary political will and consensus among the principal stakeholders; (b) take a comprehensive, long-term approach to the reform process, but be selective in progressively identifying projects for the short and the medium term; (c) focus on the key institutions that motivate stakeholders; (d) confirm the feasibility of applying the reforms adopted in other countries, and adapt them to the local political and institutional context; (e) build upon institutional practices that are functioning successfully in the country, and identify priority areas for intervention; (f) entrust execution to specialized, permanent institutions that have clear authority to carry out the project; (g) do not approach implementation as a mechanical process, and be careful to monitor the operation closely; and (h) adopt flexible designs that can be adapted as situations change. These and other lessons can be found in the Bank's new strategy for modernization of the State.
- 1.49 On 23 June 2003, the Bank approved €297,900 in nonreimbursable technical-cooperation funding from the Spanish Fund (ATN/FG-8349-CO), to help the DNP in the design and implementation of the public administration reform program. This technical-cooperation program is helping the DNP to conduct technical studies for restructuring institutions and agencies and for strengthening horizontal management systems. It also supports preparations for public employment reforms and the design of a national information policy.

¹⁴ For example: the program in Uruguay (1336/OC-UR), which has produced much experience in workforce restructuring, and the program in Brazil (1042/OC-BR), which introduced new institutional models of management and led to a 30% reduction in the number of central government employees over 10 years through a strategy of not replacing retirees. In Colombia, the institutional strengthening project for the District of Bogota (1385/OC-CO) has been supporting the introduction of specialized district service centers (CADEs) and has experimented with offering multiple transactions at a single location, and a MIF operation is supporting the program for simplification of procedures for the business sector (ATN/MT-7186-CO).

- 1.50 The effort to help Colombia with its NPA reform strategy through technical assistance and advisory services, financing, and implementation of reforms, is being closely coordinated with multilateral agencies. This operation focuses on restructuring the NPA, reforming the management of public employment, strengthening horizontal management systems (such as legal and asset management), and integrated information for governance; whereas the World Bank, through a programmatic policy loan for US\$900 million, is addressing the areas of budgetary management and tax reform. There will be greater complementarity between the two agencies for certain specific management systems, since the World Bank has set targets for legal management, the management of fixed assets, and government procurement in its programmatic loan, which the IDB will support with specific investments.

II. THE PROGRAM

A. Objectives

- 2.1 The general objective of the program is to enhance the productivity of the National Public Administration (NPA) by improving the efficiency, effectiveness, and transparency of government entities and systems.
- 2.2 Achieving greater efficiency and productivity in the NPA will require a better relationship between inputs (costs of human and technological resources and infrastructure) and outputs (the coverage and quality of the goods and services provided). The strategic focus of the program has been to work on the inputs side of the NPA by reducing redundant costs. Funds will also go to improving the administration of available resources through better organizational design, greater professionalism, the use of modern management tools, and more transparent and integrated information.
- 2.3 The specific objectives of the program are to achieve: (a) greater efficiency in the use of available resources through better organizational design; (b) better management of public employment; (c) greater integration, quality, and efficiency of horizontal systems for the NPA's legal and asset management; and (d) improvements in the generation, integration, and transparency of government information. The program is expected to indirectly help stabilize the NPA's fiscal situation and thereby free up resources for development.

B. Description

- 2.4 The program is divided into four components: (a) restructuring the NPA; (b) reforming the management of public employment; (c) strengthening horizontal management systems; and (d) integrating information for governance.

1. Restructuring the NPA (US\$3.1 million)

- 2.5 This component will support the vertical reorganization of central government ministries and entities. It includes the following subcomponents: (a) *internal reorganization of ministries and entities*; and (b) a *workforce adjustment plan* that will provide retraining, adjustment, and reemployment assistance to laid-off public servants.
- 2.6 The subcomponent for *internal reorganization of ministries and entities* is based on a model designed to improve efficiency and effectiveness in two stages. The first stage covers the design and publication of decrees, already implemented under the PRAP framework, for the organizational restructuring of sectors and entities through the elimination of redundant positions, which has already increased productivity. The second stage begins with detailed implementation over the

- medium term of the approved organizational restructurings through downsizing and management enhancement plans, enabling institutions to consolidate their productivity improvements. This subcomponent will finance activities to support downsizing at institutions through standardized methods and criteria to make procedures more flexible and uniform, and the design and implementation of management enhancement plans.
- 2.7 Internal reorganization proposals for each ministry or entity will include identification of core outputs, design of the new organizational structure, and a redefinition of staffing requirements. This analysis will consider the alternatives of eliminating surplus positions, “rightsizing,” reducing hierarchical levels, consolidating fragmented activities, and whether services should be outsourced or decentralized, among other mechanisms. The findings of the 19 sector working groups set up within the DNP will provide the point of departure for this work.¹⁵
- 2.8 The rightsizing of staffing levels under the PRAP takes account of each entity’s institutional mission and the technological level of the management systems that are to be implemented, with estimates of the resulting economies of scale and productivity increases. The strategy here is to eliminate low-productivity positions on a selective basis in the course of restructuring, rather than resort to across-the-board budget cuts. Mechanisms will also be strengthened to prevent the rehiring of laid-off public servants at the NPA over the short and medium term.
- 2.9 Management enhancement plans for the priority entities will include design of strategic management policies, process review or reengineering, training plans, and a management technologies development plan. These plans will include indicators of effectiveness, transparency, efficiency, and productivity applicable to each entity receiving assistance. To implement these enhancement plans, program resources will fund specialized support strategies, services, and systems.
- 2.10 The *workforce adjustment plan* subcomponent (the PPS social safety net program), to be funded with counterpart resources, is being coordinated by a central monitoring and quality control office at the DNP, responsible for: (a) providing initial counseling to laid-off public workers (vocational guidance and assistance); (b) placement services with the private sector (for job seekers); (c) support for self-employment (assistance for business startups); (d) training (including prequalification and administration of the registry of support institutions, and supervising the quality of services); and (e) central management (including the information system that will support the PPS, implementation of the communication strategy, and preparation of reports for management monitoring and supervision).

¹⁵ The DNP has developed a sectoral prioritization index that identifies priority NPA entities for assistance. This index is based on size (number of employees, payroll cost, and operating budget), transparency, and risk (evaluated by the Comptroller’s office). Other selection factors will be the expected fiscal impact of restructuring these entities, as well as government priorities.

2. Reforming the management of public employment (US\$3.1 million)

- 2.11 This component will strengthen the management of human talent in government service by encouraging greater observance of the merit principle and introducing the flexibility for human resources to be managed effectively and efficiently through the DAFP as Colombia's central civil service coordination agency. It includes the following subcomponents: (a) the design and implementation of *tools to promote meritocracy* in public employment; and (b) modernization of the *public employment information and management system* through the design and implementation of a shared payroll and human resources management system.
- 2.12 To strengthen the merit principle, the program will finance the following activities: (a) review and simplification of the employment structure, reducing levels and grades and establishing functional job descriptions; (b) the design and implementation of tools for performance evaluation tied to the achievement of institutional outcomes; and (c) the design and implementation of management agreements as tools for senior managers in government to consult and settle on targets. This will involve identifying management positions for which candidates must meet specified professional requirements through a merit-based process.
- 2.13 For the development and implementation of the *public employment information and management system* within the NPA, the program will finance technical services, equipment, systems, and training for: (a) strengthening the DAFP's technology platform, so that it can obtain timely, reliable information from the existing system that can be used in its entirety in the proposed new public employment information and management system; (b) the design and implementation of the new public employment information and management system that will link basic human resources data with payroll, including coordination with the Integrated Financial Information System (SIIF); (c) the identification and implementation of automated audit filters and sorting devices for integrated payroll management and lowering of unnecessary staff costs; and (d) the preparation and implementation of annual forecasts of human resource needs. The process of designing and implementing the *public employment information and management system* within the NPA will be led by the DAFP, under the strategy and policy guidelines set by the Intersector Commission on Information Policy and Management for the Public Administration, established by Decree 3816 of 31 December 2003.

3. Strengthening horizontal management systems (US\$2.7 million)

- 2.14 This component will improve the integration, quality, efficiency, and effectiveness of certain horizontal management functions within the NPA.¹⁶ To achieve this

¹⁶ Each horizontal management system was examined from three perspectives: (i) institutional (determining the lead agency that will centralize policy formulation and evaluation); (ii) legal (identifying needed legal and regulatory changes); and (iii) technological (defining a technological model for establishing unified, accessible databases with direct input from the operating units).

objective, the following subcomponents will be financed: (a) a *legal management strategy* for the NPA; and (b) a *fixed asset management* system.

- 2.15 With respect to establishing and strengthening the *legal management strategy* for the NPA, the program will seek to establish a comprehensive policy to shield against State liability actions and determine the best lines of defense to safeguard the NPA's interests by introducing preventive measures and restructuring the system, including institutional, human resource, legal, and technological aspects. The subcomponent will finance the following activities: (i) support for the development of a management model for the NPA's legal management with coordination, monitoring, and evaluation mechanisms that include a role for the Ministry of the Interior and Justice and other sectors; (ii) strengthening of the integrated information system for litigation monitoring and oversight, accessible to NPA institutions, that will support the management model described above with up-to-date information on exposure and legal actions, including at least a description of the parties and those representing them, causes of action, and case status and tracking; and (iii) development of a plan for professionalizing the NPA legal departments that provide legal counsel, contracting services, and legal defense.
- 2.16 The redesign and introduction of an *asset management* system will foster the shift toward a management culture that will produce greater efficiency and effectiveness in the acquisition, disposal, maintenance, and allocation of assets. The program will finance the development and implementation of an Asset Management Information System (SIGA), a legislative review, and introduction of a new asset management model. This will allow implementation of the proposals contained in the PROGA asset management program as part of the CONPES paper. An Intersector Commission¹⁷ will be established above PROGA, made up of the heads of the DPN, MHyCP, and the Ministry of Environment, Housing, and Local Development, or their delegates, along with a representative of the President of the Republic. The Intersector Commission will coordinate and guide performance of functions related to the efficient management of public assets. Its exact functions are the subject of a draft decree now being discussed and considered by the national government.
- 2.17 The activities proposed in the PROGA start with development and implementation of the SIGA, consisting of a database with an updated, screened inventory of public assets. The SIGA will be fed with information sent by NPA entities to the CGN, and will be used for management decision making, based on pre-established indicators that will be calculated in accordance with generally accepted methodologies. The subcomponent will finance: (a) database development and the design and implementation of mechanisms for keeping it continually up to date; (b) verification of legal title and registration; (c) accounting updates; (d) appraisals,

¹⁷ Under Article 45 of Law 489 of 1988, "The National Government may establish Intersector Commissions to coordinate and guide performance of certain public functions and services, when such commissions by law or by nature comprise two or more ministers, administrative departments, or decentralized agencies, without detriment to the specific jurisdictions of each...."

mainly of properties for auction; (e) gathering and incorporating information on entities' maintenance and leasing expenses; (f) procurement of software and hardware for operating the system; and (g) training employees in this new management culture, and in working with the SIGA.

- 2.18 Based on the legislative inventory that the DNP is conducting to identify all legal and procedural restrictions on the disposal and transfer of assets, and in line with the conditionalities agreed with the World Bank, the program will finance the review and analysis of that inventory, and preparation of draft legislation to consolidate and update the rules governing asset management, institutionalize the new management model, and recognize market principles of operation. The draft will also place emphasis on procedures to be followed in concessions, sales, and disposals, striking a balance between the need for a degree of discretion in such transactions, and the need for effective, ongoing controls. Similarly, the program will finance the development of incentives, in coordination with the MHyCP, for making better use or disposing of nonessential assets.
- 2.19 Finally, the program will support design and implementation of the new asset management model noted in the preceding paragraph, based on centralized management, decentralized administration and maintenance, and the criteria of profitability, efficiency, and effectiveness. To accomplish this, the program will provide step-down funding for a technical support group to help the Intersector Commission develop: (i) policies for efficient asset management; (ii) changes to standards, regulations, and advance incentives; (iii) specific management recommendations for the Intersector Commission, either within the public administration or through the market; and (iv) reports and circulars that contain management and performance indicators, asset availability and requirements for each entity, transactions performed, and revenues and savings generated. **Issuance of the decree establishing the Intersector Commission will be a special condition precedent to the disbursement of loan proceeds to fund the technical support group.**

4. Integrating information for governance (US\$7.3 million)

- 2.20 This component will enhance the reliability, timeliness, standardization, and transparency of the information exchanged among agencies and delivered to citizens in relation to transactions, services, and public contracting through the following subcomponents: (a) promotion of *e-government* ("*services portal*"); (b) the design and implementation of a *government procurement and contracting system* ("*e-procurement*").
- 2.21 With respect to *e-government (services portal)*, the program will support the review and simplification of official transactions and evaluation of the feasibility of implementing them online, together with the portal of the Colombian State. This will include strengthening its oversight unit at the Connectivity Agenda, which will be responsible for establishing policies and rules, and for appointing and

coordinating the entities that will manage, implement, and operate the system, based on the guidelines set by the Intersector Commission on Information Policy and Management for the Public Administration, established by Decree 3816 of 31 December 2003. The portal will have a user interface, where formalities and services to enhance governance will initially be tested on a pilot basis.

- 2.22 The criteria for identifying which official transactions to automate are whether: (i) the process is streamlined and efficient; (ii) the transaction is of high monthly frequency; and (iii) making the transaction available electronically requires no regulatory changes. Once the transactions have been identified, they will be ranked in order of priority according to whether: (i) they will take less than three months to automate; (ii) they are supported by some type of technological infrastructure; (iii) the political will exists to automate them; (iv) the technological requirements have been identified; (v) they benefit the agency in terms of quality, cost and coverage; and (vi) they benefit citizens in terms of quality, timeliness, and cost.¹⁸
- 2.23 The design and implementation of a *government procurement and contracting system (e-procurement)* will improve the efficiency and transparency of government procurement by financing services, equipment, and the development of systems for: (a) preparing a strategic plan and strengthening the institutional framework for procurement; (b) evaluating available IT infrastructure and designing the *government procurement and contracting system* and its interconnectivity, including an interface with the SIIF (c) developing the *system* and acquiring commercial software licenses needed for its operation and maintenance; and (d) training and dissemination of the system both for government agency staff and for suppliers, with particular emphasis on small and medium-sized firms.
- 2.24 The Connectivity Agenda of the Ministry of Communications will handle technical coordination of the subcomponent and implement the integrated e-contracting system under the policy and strategy guidelines set by the Intersector Commission on Information Policy and Management for the Public Administration, established by Decree 3816 of 31 December 2003, in accordance with the institutional guidelines of CONPES document 3249 of 20 October 2003.
- 2.25 Consistent with international experience, implementation of e-procurement is expected to: (a) enhance productivity and competition on the supply side, which will reduce the prices offered to the government for its procurement; (b) reduce internal transaction costs for these purchases through more efficient management of the procurement process; (c) allow the government to take a strategic approach to

¹⁸ Several different transactions are now being identified and ranked, and automation activities and costs estimated. Candidates include: (i) single inspection at ports, airports, and borders; (ii) single export form; (iii) electronic and online registration of permits; (iv) electronic and online authorization of special import/export programs (Vallejo Plan); (v) automated issuance of drug-free certificates; (vi) automated inspection and oversight processes; (vii) consolidated social security participant form; and (viii) consolidated social security payment.

procurement using the information generated by the system; and (d) encourage greater transparency in government procurement processes.

C. Cost and financing

- 2.26 The estimated total cost of the program is US\$18,811,000 equivalent, to be financed with a Bank loan of US\$10,346,000 from the Ordinary Capital, and counterpart funding on the order of US\$8,465,000 from the national government. The program will be executed over a period of 48 months.

Table II-1. Total Project Costs (US\$000)			
Categories	IDB	Local	Total
1. Administration	553	866	1,419
Administrative costs and technical coordination	-	744	744
Coordination of NPA reform (PRAP)	553	122	675
2. Direct costs			
<i>Restructuring the NPA</i>	2,784	270	3,054
(a) Reorganization of ministries and agencies, and layoffs	2,784	-	2,784
(b) Social safety net for laid-off employees		270	270
<i>Reforming the management of public employment</i>	2,832	240	3,072
(a) tools to promote meritocracy	149	40	189
(b) public employment information and management system	2,683	200	2,883
<i>Strengthening horizontal management systems</i>	2,407	317	2,724
(a) Legal management	672	-	672
(a) Fixed asset management	1,735	317	2,052
<i>Integrating information for governance</i>	903	6,370	7,273
(a) Services portal	439	3,435	3,874
(c) e-Procurement system	464	2,935	3,399
3. Associated costs	246	33	279
Audits	60	-	60
Monitoring and evaluation	186	33	219
4. Contingencies	621	319	940
5. Financial costs	0	50	50
Inspection and supervision	0	-	0
Credit fee	-	50	50
TOTAL	10,346	8,465	18,811

D. Conditions of Bank financing

2.27 The Bank will provide US\$10,346,000 in financing from the Ordinary Capital. The terms and conditions of the loan are shown in Table II-2.

Table II-2. Loan Terms and Conditions	
Source:	Ordinary Capital (OC)
Amount:	US\$10,346,000
Terms:	
Amortization period:	20 years
Grace period:	4 years
Disbursement period:	minimum 3, maximum 4 years
Interest rate:	adjustable
Inspection and supervision	0%
Credit fee:	0.25% on undisbursed balances
Currency:	U.S. dollars from the Single Currency Facility

III. PROGRAM EXECUTION

A. Borrower and executing agencies

- 3.1 The borrower will be the Republic of Colombia. Program activities will be executed by the National Planning Department (DNP), the Department of Public Service Administration (DAFP), the Ministry of the Interior and Justice, and the Ministry of Communications, (through the Communications Fund / Connectivity Agenda) hereafter referred to collectively as the executing agencies (EAs). The EAs will work under the technical and operational coordination of the program's Steering Committee (SC), supported by a Technical Secretariat (TS) within the DNP. The EAs will act through the United Nations Development Programme (UNDP), which will serve as program administrator (PA) for the management of resources, the procurement of goods and related services, and the contracting of consulting services.

B. Program execution structure

1. Steering Committee (SC)

- 3.2 The SC will consist of: the director of the DNP or a representative appointed to coordinate the Public Administration Reform Program (PRAP), who will chair the committee; the director of the DNP asset management program; the director of the DAFP; the director of state legal defense at the Ministry of the Interior and Justice; the director of the Connectivity Agenda; a representative of the MHyCP and the coordinator of the Technical Secretariat. All members, with the exception of the TS representative, will be voting members. **Formal establishment of the SC will be a special condition precedent to the first disbursement of Bank financing.**¹⁹
- 3.3 The SC's functions will include: (a) to coordinate the overall program; (b) to implement the Operating Regulations, the annual work plans (AWPs), and the contracting and procurement plan for the program; (c) to review and approve the program monitoring and evaluation reports; (d) to oversee compliance with the agreement to be signed between the EAs and the PA; (e) to review and approve any changes necessary during program execution, subject to the Bank's prior nonobjection, if required; (f) to take note of the findings of program audits and implement any recommendations; and (g) to monitor program execution on a quarterly basis.

2. Technical Secretariat (TS)

- 3.4 The TS will consist of: a coordinator, a procurement expert, an accounting and financial expert, and support personnel as required. The TS will also receive

¹⁹ The SC members have already been working with the Bank as counterparts during program preparation.

technical support from the Office of Institutional Development or its successor within the PRAP, as well as technical departments of the DNP, as necessary for the program's technical coordination. **Formal establishment of the TS, including appointment of the coordinator and selection of TS staff, will require the Bank's nonobjection and will be a special condition precedent to the first disbursement of Bank financing.**

- 3.5 The TS's functions will include: (a) to serve as a single point of contact with the Bank; (b) to support the SC in coordinating program activities with the EAs; (c) to coordinate the process of contracting and supervising the PA's work; (d) to prepare and submit to the Bank semiannual progress and monitoring reports on the program, based on information provided by the EAs; (e) to make sure that disbursement applications submitted by the EAs to the MHyCP are consistent with Bank requirements; (f) to prepare and present to the Bank semiannual reports on use of the program's revolving fund, based on information provided by the EAs and the PA; (g) to present to the Bank the annual financial statements for the program, based on information provided by the EAs and the PA, and duly audited by a firm of independent auditors acceptable to the Bank; (h) to coordinate the process of contracting the independent firm of auditors, in accordance with procedures acceptable to the Bank; (i) to cooperate with the EAs in preparing and finalizing the AWP for the program; and (j) to ensure proper technical coordination of program activities.

3. Executing agencies (EAs)

- 3.6 Each EA will put in place the following minimum structure for carrying out its activities under the program: a technical manager, appointed by the highest authority of the EA, and the necessary support personnel.
- 3.7 The functions of the EA technical manager will include: (a) to manage the allocation of program budgetary resources and the Annual Cash Plan; (b) to transfer local counterpart funds to the PA, in accordance with that plan; (c) to prepare the AWP and the procurement and contracting plan; (d) to prepare terms of reference on the basis of the AWP; (e) to monitor the technical aspects of services and goods acquired, and certify their receipt in accordance with the established specifications, as a prerequisite for processing payments; (f) to prepare and submit to the PA documentation in support of payment requests; (g) to prepare management reports on the various subcomponents and submit them to the TS; (h) to provide the independent audit firm with all required information for program audits; (i) to submit disbursement requests to the MHyCP for presentation to the Bank and (j) respond to TS and SC requests for information and documentation in a timely manner.

4. UNDP as Program Administrator (PA)

- 3.8 The United Nations Development Programme (UNDP) will manage program resources and the procurement of goods and consulting services. **Contracting with UNDP will be a special condition precedent to the first disbursement of Bank financing.**
- 3.9 In accordance with Bank procurement policy (Procurement Manual Chapter GS-403), direct contracting of UNDP as Program Administrator without open competition is recommended.²⁰ UNDP will conduct all procurement and other activities deriving from the performance of its functions with program funds, in accordance with Bank procurement procedures and the letter of agreement on cooperation and coordination of activities signed by the Bank and UNDP on 20 June 2003.
- 3.10 The functions of the PA will include: (a) supporting the preparation of bidding documents and supervising bidding procedures; (b) contracting consulting services and procuring goods for the program; (c) making payment for the corresponding procurement and service contracts; (d) maintaining detailed accounting and financial records for each EA, as well as internal control systems consistent with Bank requirements, for managing program resources; (e) supplying information for the preparation of semiannual reports on the revolving fund, and consolidated financial statements for the program, as well as maintaining records with the original supporting documentation; (f) reviewing and implementing recommended adjustments to the terms of reference prepared by the EAs; (g) obtaining evidence of receipt and other internal control requirements for making payment for goods and services provided to the EAs; (h) opening and maintaining separate and specific bank accounts for handling funds from the Bank loan and the counterpart contribution, as well as the program's revolving fund; and (i) ensuring the protection and proper use of program resources.
- 3.11 The PA will procure goods and related services and contract consulting services in accordance with Bank policies and procedures. The contract to be signed between the borrower and the PA will contain provisions necessary for fulfilling the functions and responsibilities referred to in the preceding paragraph.
- 3.12 To ensure effective and coordinated implementation of program activities, the EAs will sign an interagency agreement consistent with the principles established in the loan contract and enumerated in the Operating Regulations. Such agreement will

²⁰ UNDP's main technical advantage is its broad experience on other projects in Colombia, in line with its mission of helping developing countries to enhance governance, with 12 contracts signed between 1990 and 2001 to administer external borrowing resources supplied by multilateral banks. UNDP also offers the beneficiary several institutional advantages, which will help it to execute and manage the project and fulfill the terms and conditions of the operation, given its support of the public administration reform program since 2002 through international technical cooperation, and its strong performance in terms of procurement, financial execution, and facilitating disbursements.

include: (a) the operational responsibilities of each EA, and those of the SC as general program coordinator; (b) the obligation of the EAs to transfer counterpart funds to the PA; (c) the obligation of the EAs to establish and maintain proper systems of internal financial and accounting control for the program; and (d) other provisions as necessary to the functions referred to in paragraph 3.10. **Signature of such agreement will be a special condition precedent to the first disbursement of Bank loan proceeds.**

5. Annual work plans (AWPs) and Operating Regulations

- 3.13 Program activities will be scheduled in accordance with annual work plans (AWPs), to which the Bank will be asked to give its no objection after they are approved by the SC. The AWP will identify the specific objectives of each subcomponent, the activities for achieving them, the schedule for those activities, and the respective budget, distinguishing between local counterpart and Bank funding, in line with the indicative targets of the program. The first-year AWPs for each subcomponent are now under review, before being finalized.
- 3.14 The borrower, through the TS, will provide the Bank with progress reports on AWP implementation and the loan contract conditions in general at the end of each year of project execution. The Bank will review the monitoring reports, assessing the technical quality of program activities and progress towards the established targets (see Annex III-1 for the logical framework).
- 3.15 The program's Operating Regulations will include the execution schedule, execution procedures for each component and subcomponent, and the execution responsibilities of each EA. **Entry into force of the Operating Regulations will be a special condition precedent to the first disbursement of Bank financing.** The basic Operating Regulations have been reviewed by the project team and found satisfactory.

C. Initial workshop

- 3.16 Once the operation is approved, a startup workshop will be held with the responsible program authorities, the TS and Bank officials, with a view to coordinating the activities in the AWP for the first year.

D. Procurement

- 3.17 The procurement of goods and related services and the contracting of consulting services will be conducted in accordance with Bank policies and procedures. For the procurement of goods and related services, international competitive bidding will be used when the cost is US\$350,000 equivalent or more. For the contracting of consulting services, open international calls for proposals will be issued where the estimated cost is greater than US\$200,000 equivalent. Procurement and contracting in lesser amounts than those indicated will be governed by national legislation, provided that the procedures are consistent with Bank policies. The

program does not call for the construction of works. The procurement plan is found in Annex III-2.

3.18 Institutional capacity and ex post review of disbursements and procurement.

The Bank may use ex post review for procurements of less than US\$100,000 equivalent for goods and related services, and less than US\$50,000 for consulting services. For purposes of supervising international competitive bidding and calls for proposals, and other means of procurement or contracting, if any, the Bank's Country Office will retain a consultant to apply the methodology recently developed by ROS/DAU on guidelines for ex post review of procurement and disbursements (document AF-600). The Bank will inspect the first three procurement and consulting contracts on an ex ante basis.

E. Disbursements and revolving fund

3.19 A revolving fund in the amount of 5% of the Bank loan will be established for making disbursements under the program. If that amount should be insufficient, given the large number of participating entities and the potential for bunching of expenses and the restitution of funds at different rates, the borrower may ask the Bank to increase it, in accordance with Bank procedures and policies. Proceeds from the loan will be kept in a special current account for the program, in dollars, which the borrower, through the MHyCP, will open.

3.20 In accordance with Operations Administration Manual Chapter 340, "Guidelines for the Review of Disbursement Requests," before authorizing the disbursement of loan proceeds the Country Office should assure that the participation of the sources of financing ("pari passu"), as defined in the project cost table, is approximately maintained during the execution of the project.

3.21 For purposes of the program, the Country Office will make such determination as follows: the pari passu will be determined for the first three components of the program, while the pari passu for component 4 will be determined separately and independently, such that disbursement under components 1, 2, and 3 will be authorized and made, irrespective of the participation of the sources of financing for component 4. In any event, the Bank will continue authorizing disbursements so long as the total counterpart is less than 30% of the total program cost.

F. Execution period and investment schedule

3.22 The disbursement period for the loan has been estimated at four years from the date of the loan contract. This term is considered adequate for conducting the planned technical assistance activities and the bidding and contracting of activities and their execution.

3.23 The following table summarizes the program's investment schedule.

Table III-1 Investment Schedule for the Program (US\$000)				
Categories	Year 1	Year 2	Year 3	Year 4
Administration	360	698	345	16
Restructuring the NPA	1,314	1,740	0	0
Reforming the management of public employment	555	2,167	350	0
Strengthening horizontal systems	847	830	533	514
Integrating information for governance	1,500	4,948	825	0
External audit	15	36	7	2
Monitoring and evaluation	111	29	79	0
Contingencies	236	559	114	30
Total US\$	4,938	11,007	2,253	562
%	26%	59%	12%	3%

G. Retroactive financing

3.24 The Bank may finance retroactively against the loan proceeds up to US\$400,000 equivalent in expenses incurred for program activities by the borrower, through its executing agencies, from 1 January 2003 to the date the operation is approved. The Bank may recognize against the local counterpart up to US\$900,000 equivalent in expenses incurred by the borrower, through its executing agencies, on or after 1 January 2003 for activities under the various program components. Eligible expenses in both cases are those relating to program activities, such as restructuring the NPA, reforming the management of public employment, strengthening horizontal management systems, and integrating information for governance. In either case, such recognition will be for expenses incurred no more than 18 months prior to Bank approval of the loan, provided that the procedures followed were consistent with those in the loan contract.

H. External audit

3.25 The operational and financial audit of the program will be performed by an independent firm of auditors acceptable to the Bank. Audit work will be conducted in accordance with terms of reference previously agreed by the Bank (document AF-400). The audit firm will be selected and contracted in accordance with the Bank's standard procedures (document AF-200). Audit costs are included in the program cost and will be financed from the loan. The audit firm will be contracted for a minimum of four years, subject to a termination clause if its performance should be deemed unsatisfactory by the Bank. The program financial statements will be submitted within 120 days after the close of each fiscal year.

I. Midterm and final evaluations

- 3.26 A midterm evaluation conducted after the first two years of execution will include assessment of the pace of execution of each component. A final evaluation will include as a minimum the indicators established in the **logical framework**, plus additional information and analysis.
- 3.27 Under the coordination of the Public Policy Evaluation Office (DEPP/DNP), the borrower agrees to contract program evaluations on the following terms: (a) overall conceptual design; (b) detailed design; (c) periodic baseline updates; (d) final report; and (e) public dissemination of the outcomes of reform effects on the target NPA sectors. The evaluations will seek to determine whether the program objectives have been met and identify what effect reforms have had on the productivity of certain target NPA institutions.
- 3.28 The overall conceptual design and the detailed design will involve specifying with greater precision the baseline indicators set in the logical framework, and establishing data gathering and analysis procedures for the evaluation.
- 3.29 Consistent with the scope and periodicity defined in the overall and detailed designs, information on the baseline indicators will be gathered and updated regularly, to determine whether program execution is on track against objectives. Such information will be submitted to the Bank. Depending on the periodicity established, updated information reports will be presented to the Bank within 60 days after presentation and approval of the periodic update reports to the DNP. For the dissemination of outcomes, effective mechanisms will be set up to gather and validate information and promote civil society involvement through accountability frameworks to be established by the government.
- 3.30 A final report will be prepared on the basis of the compilation and analysis of periodically collected information. The report will be released to the general public, public-sector agencies, and civil society organizations. It will assess the benefits produced by the program, applying the general evaluation design. The final report will be prepared and delivered to the Bank during the last six months of program execution.
- 3.31 The TS will compile and maintain information, indicators and parameters, including the AWP and the midterm and final evaluations, so that the Bank can prepare a project completion report (PCR).

IV. FEASIBILITY AND RISKS

A. Institutional and financial feasibility

- 4.1 **Institutional feasibility.** Given the large number of participating entities and topics covered, the program's design pays particular attention to mechanisms that will facilitate its execution. Many program activities involve consulting and implementation services, together with minor equipment purchases. In other words, the required execution capacity relates primarily to the administration of service and procurement contracts. UNDP has demonstrated capacity to perform administrative functions in this area (finding, selecting and contracting services; purchases, payments, accounting and financial reports), and will do so as Program Administrator in Colombia. The work of the EAs will be limited to technical supervision and control over the quality of services, and monitoring implementation of their results. The institutional evaluation that was conducted in this field shows that the EAs have this capacity. This scheme will be complemented by coordination and control by the TS and the SC.
- 4.2 The DNP, which will house the SC and TS, is the lead entity for the program, and has been specially designated under Presidential Directive 10 as coordinator of the reforms (Public Administration Reform Program, PRAP). It has demonstrated sound leadership in designing the program that the Bank will finance. The DNP has long experience in coordinating national budget-setting policies, and its staff are widely recognized for their technical capacity. In addition to managing the PRAP as a whole, the DNP will provide the TS for the program financed by the Bank. This overall organizational scheme for execution, coordination and control provides grounds for confidence in the institutional feasibility of the program.
- 4.3 **Financial feasibility.** The counterpart funds will come from the national budget, in the form of a specific allocation by the DNP. The proposed national budget for 2004 includes the funding needed for the first year of the program, within the budgets of the DNP, DAFP, the Ministry of the Interior and Justice and the Ministry of Communications.

B. Social and environmental impacts

- 4.4 Given the nature of the activities to be financed under the program, no direct environmental or social impacts are foreseen. Nevertheless, the program will pay particular attention to the following issues:
- a. **The government's workforce rationalization plan.** This process will generate layoffs and a reduction in the number of public employees. As a result, special attention has been paid to social impact with such cushioning mechanisms and strategies as training and reemployment incentives. For example, the "Special Powers Act" contains a "social retention" clause that prohibits the dismissal of

single mothers, disabled persons, and employees with less than three years to retirement age.²¹

- b. **Institutional restructuring.** The enhancement plans to be undertaken in the program involve exclusively the NPA's back office management, and are therefore not expected to produce any negative environmental or social fallout. If priority institutions with environmental responsibilities of any kind are included, steps will have to be taken to ensure that administrative reform does not produce any significant disruptions in environmental management: the consultants will have to consider this issue. In terms of ethnic and cultural diversity, the program does not call for any action at the regional level, or the creation or reform of front-office activities, and this reduces the need for specific mitigating actions.

C. **Benefits and value added by the Bank**

- 4.5 The program will produce significant direct benefits, both by enhancing the efficiency, effectiveness, and transparency of government and by improving the country's fiscal situation.
- 4.6 In terms of the NPA's efficiency and effectiveness, the organizational restructuring will reduce institutional dispersion by cutting the total number of entities, thereby improving the coordination of policy formulation and service delivery. Better organizational design is expected to optimize the use of available resources. Public employment management is expected to improve through the use of modern, integrated technological tools. Finally, greater transparency in government by delivering more and better information to the public and to other institutions will help to strengthen the sense of citizenship and increase competitiveness.
- 4.7 Other benefits will flow from improved management of specific systems, such as the fixed asset management, which will facilitate the sale of nonessential assets, and from additional savings in maintenance costs, which will release funds for social programs or capital investment. Benefits will also be felt in government procurement and contracting: a simulation study shows that a reduction of as little as 3% in the average prices paid on only 50% of government procurement costs would generate savings of more than US\$120 million a year.
- 4.8 From the fiscal viewpoint, the main benefit of the operation will flow from the modernization of NPA management in a fiscally responsible manner with a gradual reduction in the share of current NPA expenditure within GDP through reducing payroll costs. This will produce an increase in average productivity and make room for greater public investment. The MHyCP has estimated the following savings as a percentage of GDP.

²¹ As of April 2003, 2,730 employees had been confirmed in their positions as a result of the "social retention" clause.

Table IV-1. Savings through NPA reform¹ (as a percentage of GDP)				
Source of savings	2003	2004	2005	2006
Nonreplacement of retirees and reduction in vacant posts	0.06	0.12	0.15	0.17
Reform of Law 80 and online government	0.00	0.20	0.40	0.40
Legal defense of the State	0.00	0.00	0.05	0.05
Physical assets	0.00	0.00	0.10	0.10
Total	0.06	0.32	0.70	0.72
¹ The savings realized through this reform will be earmarked to cover employee retirement, compensation and relocation expenses. Any remaining surplus will be used to reduce the fiscal deficit and increase investment in the quality and coverage of public goods and services.				

- 4.9 The Bank's contribution to this operation goes far beyond financing. The value added by the Bank can be appreciated in the assistance it has given the government in defining policies for steering the reform and laying the basis for the program's success. The Bank has worked closely with the government in analyzing problems and their causes, and in discussing and defining jointly the most appropriate strategy for addressing them, in light of international experience and lessons learned. The Bank's team assisted as well in building consensus and in strengthening the institutional capacity of the executing agency to manage the process of change. It also helped to identify the risks and to establish benchmarks for monitoring the program's execution and measuring its impact.

D. Risks

- 4.10 The program presents three risks: (a) lack of ongoing political support, which could slow, postpone, or alter the planned reforms; (b) lack of proper coordination in program execution, because of the many issues and agencies involved in the reforms; and (c) the lack of fiscal room, both in foreign currency and in counterpart funding, for implementing the program.
- 4.11 To encourage ongoing political support and thereby minimize the first risk, the government has confirmed its commitment to reform in the National Development Plan (PND 2002-2006), as well as in the agreements signed with the World Bank and the IMF, which give due priority to these issues. Another indication is the approval of several CONPES documents at the 20 October 2003 meeting (public administration reform, government contracting, legal defense, and asset management). The legislative branch has also shown its support by passing the Special Powers Act in late 2002 and approving, at an initial stage, the concept paper on this operation in the Interparliamentary Commission. At the same time, monitoring of the program will serve to identify promptly any sign of deviation in this process.
- 4.12 As a further mitigating effort, the DNP will continue to promote transparency in implementing the reform, through ongoing analysis of winners and losers, so that

- preventive action can be taken to ensure the program's feasibility and sustainability, based on a solid political and social consensus and on dialogue and strategic partnerships that will involve civil society, political parties, economic sectors, academia, labor unions and professional associations, NGOs, etc.
- 4.13 Three elements of the program's design will minimize execution problems: (a) establishment of a Steering Committee in which all the institutions involved will participate and coordinate with one another; (b) clearly defined responsibilities for each of the participating entities; and (c) review by the Steering Committee and the Bank of the main execution instrument: the annual work plans (AWPs) submitted by each entity. A series of indicators has also been established for measuring outputs and impacts over time, thereby strengthening the DNP's coordination and management capacity.
- 4.14 The risk of a lack of fiscal room could appear at two levels: general limitations on public spending and problems with the counterpart *pari passu*, which is heavily concentrated in component 4. To mitigate this risk, the 2004 budget includes the funds necessary to begin restructuring the NPA and executing the program. For subsequent years, the availability of funding will depend, as it does with other investment programs, on the fiscal situation. However, considering the significant savings that the reform will generate, even under tight fiscal conditions, the program should remain a top priority for the government.
- 4.15 The risk of a lack of fiscal room will also be mitigated by the IDB's ongoing coordination with the World Bank programmatic loan, which sets outcome conditions for government procurement, legal management, and asset management; specifically in subcomponent 4, where conditions establish the need for progress in sector institutional mechanisms and for changes to the Government Contracting Act.
- 4.16 Additionally, since a lack of counterpart resources for component 4 would not jeopardize achievement of the objectives of the other components, the Bank will continue authorizing disbursements so long as the total counterpart is less than 30% of the total program cost.

LOGICAL FRAMEWORK
PUBLIC ADMINISTRATION REFORM PROGRAM (CO-0266)

Narrative Summary	Indicators¹	Means of Verification	Major Assumptions
Goal			Sustainability
To help achieve sustainable equilibrium in public finances and free up resources for the country's development.	NPA current expenditure constant as of 2004 (<i>baseline</i> : NPA expenditure XXX in 2003). ²	Official government statistics on NPA spending (MHyCP) calculated in annual program performance monitoring reports and midterm and final evaluations.	The political climate remains favorable to achieving sustainable fiscal equilibrium, in line with international standards of fiscal prudence and responsibility.
Purpose			Purpose to Goal
To enhance the productivity of the National Public Administration (NPA) by improving the efficiency, effectiveness and transparency of state institutions and systems.	Average productivity rises within the NPA ³ and real payroll costs fall by 10% within the national executive branch. <i>Baseline</i> : Col\$4,164,674,000,000 in 2002 (includes public employees and official workers; excludes intermediate and elementary school teachers and the military/police forces)	Official government statistics on NPA spending (MHyCP) and staff costs (DNP and DAFP) and costs of delivering public goods and services. ⁴ Program midterm and final evaluation reports.	The strategic core (DNP, MHyCP, and DAFP) maintain steady gains in efficiency, effectiveness and transparency in the NPA as their political priority and continue working in an integrated manner.
Components and outputs			Components to Purpose
1) NPA restructured , with organizational structures more appropriate to efficient government functioning, and the NPA playing a stronger role in policy formulation and service provision	(i) 10% reduction in the total number of NPA entities (<i>baseline</i> : 302 in 2002, versus 189 in 1990); (ii) 15% reduction in the number of NPA working positions (excluding intermediate and elementary teachers, military/police forces, and vacant positions) (<i>baseline</i> : 155,000 in 2002, versus 100,000 in 1993).	Official Government information (DAFP and DNP) and annual program performance monitoring report.	The ministries and entities selected by the BNP for priority assistance continue to participate actively in the PRAP and maintain political, economic and organizational conditions appropriate to the proposed restructuring plans.

¹ Targets for which no specific date is indicated are to be achieved by the end of the program execution period.

² Excluding interest, pensions, investments, transfers to subnational governments, intermediate and elementary teachers, and persons in uniform (police and military).

³ Average productivity is defined as: NPA value added / number of occupied positions (equivalent to a 40-hour work week).

⁴ The NPA value added will be calculated on the basis of statistics for the delivery of goods and services.

Narrative Summary	Indicators ¹	Means of Verification	Major Assumptions
<p>Output:</p> <p>(a) reorganization and rationalization of NPA ministries and priority entities</p> <p>(i) preparation of technical studies and publication of decrees governing new organizational structures, (including redefinition of staffing requirements)</p> <p>(ii) implementation of management enhancement plans (including the execution of specialized management strategies, review or re-engineering of procedures, and retiree plan)</p> <p>(b) execution of the social safety net plan for workforce rationalization (PPS)</p> <p>(i) assistance and initial vocational counseling (psychosocial assistance)</p> <p>(ii) job placement services</p> <p>(iii) self-employment (business startup assistance)</p> <p>(iv) training (including service quality control)</p> <p>(v) central management (information system, communication strategy, monitoring and supervision)</p>	<p>(a) reorganization and rationalization</p> <p>(i) Number of restructured units / total units <i>Target: 110 reorganizations</i> of ministries and entities published (37% of NPA), including elimination of overlapping, downsizing, fewer hierarchical levels, assignment changes, vacant posts abolished, and consolidation of fragmented activities;</p> <p>(ii) Up to 15 priority entities receive support on their management enhancement plans.</p> <p>(b) workforce adjustment plan offered to 100% of laid-off workers, with the following coverage expected by end-2005 (percentages of the number of laid-off workers):</p> <p>(i) psychosocial counseling for 50%</p> <p>(ii) placement services for 30%</p> <p>(iii) self-employment help for 15%</p> <p>(iv) training for 30%</p>	<p>(i) Published restructuring decrees.</p> <p>(ii) Annual program performance monitoring report and midterm and final evaluation reports.</p> <p>(b) PPS monitoring report at end-2005.</p>	
<p>2. Improved public employment management</p> <p>Outputs:</p> <p>(a) Implementation of tools to promote meritocracy in public employment, including:</p>	<p>(a) Tools to promote meritocracy</p>	<p>(a) New rules and annual program performance monitoring report</p>	<p>The strategic core of the reform (DNP, MHyCP, and DAFP) succeeds in maintaining political, economic, and organizational conditions appropriate for approving and implementing the new regulatory framework for public</p>

Narrative Summary	Indicators ¹	Means of Verification	Major Assumptions
<ul style="list-style-type: none"> (i) simplified and rationalized employment structure, including functional job descriptions (ii) new performance evaluation model implemented (iii) management agreements implemented as tools for evaluating management within government (b) Design and implementation of the public employment information and management system, including: <ul style="list-style-type: none"> (i) upgrades to the DAFP's technology platform to support the new system; (ii) system integration with the Integrated Financial Information System (SIIF); (iii) automated audit filters and sorting devices introduced; and (iv) annual forecasts of human resource needs. 	<ul style="list-style-type: none"> (i) minimum 20% reduction in NPA position classification (types of positions, titles and/or salary grades); and functional job descriptions are established (ii) new performance evaluation model implemented (iii) catalogue of positions and model merit-based management agreements prepared (b) Public employment information and management system <ul style="list-style-type: none"> (i) minimum 20% of NPA entities included in the new system, and representing at least 40% of NPA employees (excluding military/police forces); (ii) single personnel and payroll database in place, based on high-quality, accessible and transparent information; (iii) automated audit filters and sorting devices in place and generating cumulative savings in the overall NPA payroll; and (iv) annual forecasts of human resource needs prepared for 20% of NPA entities. 	<ul style="list-style-type: none"> (b) Midterm and final evaluation reports on the implementation of tools to promote meritocracy and the public employment information and management system 	<p>employment management, and for bringing ministries and entities into the new public employment information and management system.</p>
<p>3. Horizontal systems for NPA legal management and asset management strengthened, better integrated, and more effective and efficient.</p> <p>Outputs:</p> <ul style="list-style-type: none"> (a) NPA legal management integrated and strengthened, including: 	<ul style="list-style-type: none"> (a) NPA legal management 		<p>The strategic core of the reform (DNP, MHyCP, and DAFP) succeeds in maintaining political, economic and organizational conditions appropriate for introducing the proposed horizontal management systems</p>

Narrative Summary	Indicators ¹	Means of Verification	Major Assumptions
<ul style="list-style-type: none"> (i) development of a management model for the NPA's legal management with coordination, monitoring, and evaluation mechanisms that include a role for the Ministry of the Interior and Justice and other sectors; and (ii) strengthening of the integrated information system for litigation monitoring and oversight, accessible to NPA institutions, that will support the management model (b) Fixed asset management system redesigned and implemented, including: <ul style="list-style-type: none"> (i) inventory of NPA properties (accounting, legal and physical status of each property) (ii) design and implementation of permanent update mechanisms (Asset Management Information System, SIGA) (iii) analysis of real estate administration and maintenance costs for selected public entities (iv) policies governing incentives for disposal of nonessential assets (v) new institutional design (centralized management with decentralized administration) (vi) training for officials in the new management culture 	<ul style="list-style-type: none"> (i) interagency coordination mechanism designed and operating; (ii) computerized system for monitoring and controlling NPA litigation is accessible to 100% of NPA institutions. (b) Fixed asset management system <ul style="list-style-type: none"> (i) physical and legal inventory of NPA assets completed for 40% of ministries' assets (<i>baseline</i>: country has more than 100,000 public or official-use properties, with about 25,000 official-use properties belonging to the executive branch of the central government, and about 2,000 to the ministries). Legal regularization of at least 625 properties; appraisal of at least 1,000. (ii) SIGA operating in 85 entities, with revised and updated data, at the end of the program. (iii) 10% cut in share of maintenance expenses in the budgets of at least 25 public entities (general baseline: app. 7%, with goal of reaching about 6%); (iv) asset management bill sent to Congress during the government's current term in office; (v) At least 85 officials trained in asset management. 	<ul style="list-style-type: none"> (i) Annual monitoring report on NPA legal management and asset management system (ii) Midterm and final evaluation reports on NPA legal management and asset management system 	<p>Identify the main institutional players and possible sources of resistance for each system, and characterize the required external environments.</p>

Narrative Summary	Indicators ¹	Means of Verification	Major Assumptions
<p>4. Expanded and accessible integrated information for governance.</p> <p>Outputs:</p> <p>(a) e-Government (services portal) to make services more available online, including:</p> <p>(i) operating, management, and business model, along with the detailed design for a technology platform to offer official transactions with high socioeconomic impact online;</p> <p>(ii) basic technology platform in operation for the selected transactions;</p> <p>(iii) awareness-building, promotion, change management, and training on the technology platform; and</p> <p>(iv) Know-how and knowledge base on subcomponent implementation.</p> <p>(b) Government procurement and contracting system (<i>e-procurement</i>) with greater efficiency and transparency in procurement management, including:</p> <p>(i) operating, management, and business model developed, along with the design for the integrated e-procurement system</p> <p>(ii) information phase developed for the integrated e-procurement system</p> <p>(iii) integrated e-procurement system operating in its initial phase at the transactional level;</p>	<p>(a) e-Government (services portal)</p> <p>(i) transactions are identified, ranked in order of priority, selected, and categorized for automation;</p> <p>(ii) a minimum of 20 high-impact transactions are developed for delivery online over the basic technology platform designed;</p> <p>(iii) at least 50% more information available to the public and other institutions by the end of program execution (<i>baseline</i>: government portal recorded 496 Internet sites for public entities, with an average of 480,000 visits a month in late 2002).</p> <p>(b) Procurement and contracting system</p> <p>(i) integrated e-procurement system designed</p> <p>(ii) information phase developed and implemented for the integrated e-procurement system, accessible to 100% of NPA entities by end of program</p> <p>(iii) transactional phase development and implementation commenced</p>	<p>(a) Annual monitoring report and midterm and final evaluation reports on the services portal</p> <p>(b) Annual monitoring report and midterm and final evaluation reports on the integrated e-procurement system</p>	<p>The major institutional players in the information sector (Office of the Vice President, DNP, MHyCP, Connectivity Agenda, DANE) make integrated and convergent efforts and succeed in maintaining political, economic and organizational conditions appropriate for introducing the policy and the proposed connectivity tools.</p>

Narrative Summary	Indicators ¹	Means of Verification	Major Assumptions
(iv) awareness-building, promotion, change management, and training on the technology platform	(iv) 100 national and subnational entities receive training and use some of the services offered by the integrated e-procurement system		

PROCUREMENT PLAN

Major procurement items for the project	Sources of Financing		Method ¹	Prequalification	Specific procurement notice Tentative date of publication	Status ²
	IDB (%)	Local/ Other (%)				
				YES/NO		
1. Restructuring the PNA						
Restructuring (management enhancement plans and layoffs)						
6 contracts with 6 consulting firms: 1 for US\$180,000, 2 for US\$150,000, and 3 for US\$100,000, to implement management enhancement plans at group 1 priority entities – Total: US\$780,000	100%	0%	LCB	No	2004 I - 2005 I	Pending
4 contracts with 3 consulting firms: 1 for US\$150,000, 2 for US\$100,000, and 1 with an individual consultant for US\$50,000, to implement management enhancement plans at group 2 priority entities – Total: US\$400,000	100%	0%	LCB – IC	No	2004 I – 2005 I	Pending
6 contracts with individual consultants: 1 for US\$100,000, 4 for US\$80,000, 1 for US\$62,000, and 1 for US\$58,000, to implement management enhancement plans at group 3 priority entities – Total: US\$540,000	100%	0%	IC	No	2004 I – 2005 I	Pending
4 contracts with individual consultants: 1 for US\$75,000, 1 for US\$70,000, 1 for US\$40,000, and 1 for US\$30,000, to implement management enhancement plans at group 4 priority entities – Total: US\$215,000	100%	0%	IC	No	2004 I – 2005 I	Pending
Individual consultant to facilitate the layoff process at entities (development and implementation of methodological tools) – Total: US\$150,000	100%	0%	IC	No	2004 I	Pending
Individual consultant to facilitate the layoff process at entities (development and implementation of methodological tools) – Total: US\$50,000	100%	0%	IC	No	2005 I	Pending
2. Reforming the management of public employment						
Public employment information and management system						
Consulting assignment to organize the Shared Services Center – (US\$274,713)	65.14%	34.86%	ICB	Yes	2nd Semester 2004**	Pending
Project management and supervision for development and implementation of the Shared Services Center – (US\$416,881)	61%	39%	ICB	Yes	2nd Semester 2004	Pending
Putting the Shared Services Center into operation – (US\$2,062,100)	94.7%	5.3%	ICB	Yes	2nd Semester 2005	Pending

¹ Notes: **ICB**: International competitive bidding **LCB**: Local competitive bidding
DC: Direct contracting, no competition **LB**: Limited bidding

PS: Price shopping
DA: Direct administration

IC: Independent consultant

² The terminology to be used will be: Pending/In process/Awarded/Cancelled

Major procurement items for the project	Sources of Financing		Method ¹	Prequalification	Specific procurement notice Tentative date of publication	Status ²
	IDB (%)	Local/ Other (%)		YES/NO		
3. Strengthening horizontal management systems						
a) Legal management strategy						
Consulting firm to design legal management models for NPA entities (US\$112,220)	100%	0%	LCB	No	2004 IV	Pending
Consulting firm to design and implement legal management models for central government entities (US\$55,935)	100%	0%	LCB	No	2005 III	Pending
Consulting firm to design and implement legal management models for decentralized entities (US\$55,935)	100%	0%	LCB	No	2005 IV	
Litigation information software – Total: US\$180,000	100%	0%	LCB	No	2004 III	Pending
b) Fixed asset management system						
4 contracts, averaging US\$152,000, with consulting firms to inventory and appraise assets – Total: US\$610,000 (one contract a year, per the annual budget)	100%	0%	LB	No	2004-07	Pending
4 contracts, averaging US\$62,500, with consulting firms for legal regularization of properties – Total: US\$250,000 (1 contract a year, per the annual budget)	100%	0%	LCB	No	2004-07	Pending
Software licenses and application development – Total US\$145,000	100%	0%	LCB	No	2005 I	Pending
Computer hardware and systems – Total: US\$70,000	100%	0%	LCB	No	2005 I	Pending
4. Integrating information for governance						
a) e-Government (services portal)						
Consulting firm to develop the business, operating, and management model, along with the detailed design, to develop and put the technology platform into operation – US\$250,000	0%	100%	LCB	No	2004 II	Pending
Consulting firm for software to implement the technology platform for phase 1, including components for security, risk management, and audits – US\$400,000	0%	100%	LCB	No	2005 I	Pending
Software to implement the technology platform for phase 2, including components for security, risk management, and audits – US\$900,000	5%	95%	ICB	Yes	2005 II	Pending
Technological infrastructure, including components for security, risk management, and audits – Total: US\$850,000	5%	95%	ICB	Yes	2005 II	Pending
b) Procurement and contracting system (e-Procurement)						
Consulting firm to develop the business, operating, and management model, along with the detailed design, to develop and put the integrated e-procurement system into operation – US\$300,000	0%	100%	LCB	No	2004 II	Pending
Software to implement the technology platform for phase 2 of the integrated e-procurement system – US\$960,000	3%	97%	ICB	Yes	2005 II	Pending
Technological infrastructure for the technology platform for phase 2 of the integrated e-procurement system, including components for security, risk management, and audits – US\$700,000	6%	94%	ICB	Yes	2005 II	Pending